

GENERAL FUND REVENUE ESTIMATES

Overview

For 2010-2011, Adopted General Fund revenue estimates (excluding fund balance) total \$793.5 million, representing a 0.5% increase from the 2009-2010 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total \$928.3 million, which is 1.5% below the prior year. The Fund Balance figure is almost 12% below the 2009-2010 Adopted Budget level due primarily to a drop in the amount of funds carried forward (rebudgeted) to complete projects.

Estimates for the 2010-2011 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated initially in the October 2009 Forecast, and updated as part of the 2011-2015 Five-Year Forecast prepared in February 2010. These estimates have been reviewed continually since the Forecast document was released and

have been revised again, as appropriate, in this Adopted Budget based on more recent information.

Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2009-2010 and an estimate for the increase or decrease in activity and receipts anticipated for 2010-2011. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors.

The 2010-2011 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2008-2009 Actuals	2 2009-2010 Adopted	3 2010-2011 Forecast	4 2010-2011 Adopted	2 to 4 % Change
Property Tax	210,843,575	198,249,000	199,052,000	199,052,000	0.4%
Sales Tax	132,005,205	135,795,000	127,232,000	127,232,000	(6.3%)
Transient Occupancy Tax	7,795,177	6,553,000	6,684,000	6,684,000	2.0%
Franchise Fees	41,067,393	41,422,000	41,121,000	43,121,000	4.1%
Utility Taxes	85,749,565	84,959,000	92,932,000	92,932,000	9.4%
Telephone Tax	7,869,559	21,600,000	20,525,000	20,525,000	(5.0%)
Licenses and Permits	70,387,660	70,862,027	63,845,652	71,726,912	1.2%
Fines, Forfeitures and Penalties	13,905,029	18,346,000	16,910,000	17,130,000	(6.6%)
Rev. from Money and Property	6,888,314	8,205,000	2,908,315	3,049,614	(62.8%)
Rev. from Local Agencies	52,317,388	50,722,734	48,135,499	45,612,582	(10.1%)
Rev. from State Government	13,539,046	9,236,133	8,677,974	18,776,837	103.3%
Rev. from Federal Government	8,801,169	4,188,179	346,920	5,148,163	22.9%
Rev. from Fed Govt-Recovery Act	-	9,703,990	-	10,702,598	10.3%
Departmental Charges	27,275,653	30,438,723	29,363,381	29,581,573	(2.8%)
Other Revenue	21,621,981	15,462,438	13,574,040	13,419,768	(13.2%)
Transfers and Reimbursements	103,452,597	83,492,331	75,462,774	88,769,779	6.3%
Subtotal	803,519,311	789,235,555	746,770,555	793,463,826	0.5%
Fund Balance-Carryover*	223,651,200	152,991,748	42,169,000	134,806,929	(11.9%)
Total General Fund Sources	1,027,170,511	942,227,303	788,939,555	928,270,755	(1.5%)

* The Fund Balance figure does not include the Reserve for Encumbrances.

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Economic Performance

The 2010-2011 revenue estimates were built on the assumption that the slow pace of recovery from the economic recession will continue to impact the City's economic performance.

National Outlook

U.S. Gross Domestic Product (GDP) grew by approximately 3.9% during 2009-2010, with at least part of that growth attributable to the federal stimulus program. However, the key economic indicators are not encouraging, with GDP slowing in the fourth quarter of 2009-2010 to a rate of 1.6% and with the seasonally-adjusted June 2010 U.S. unemployment rate of 9.5% remaining close to its October 2009 high of 10.1%. As 2009-2010 drew to a close, the Federal Reserve Open Market Committee (FOMC) voted to maintain low interest rates noting that household spending remained constrained by "high unemployment, modest income growth, lower housing wealth, and tight credit."

Supporting the FOMC's assessment, the sharp decline in the June Consumer Confidence Survey, released by The Conference Board on June 29, 2010, reflected consumer disappointment with the prospects for an imminent recovery. According to Lynn Franco, Director of the Conference Board Consumer Research Center, "Until the pace of job growth picks up, consumer confidence is not likely to pick up."

The federal government has a difficult task in the coming year as it attempts to scale back the monetary and fiscal stimulus programs implemented over the past year. Withdrawal of federal support too soon could stall the nascent recovery, while continuing support too long could lead to rapid inflation.

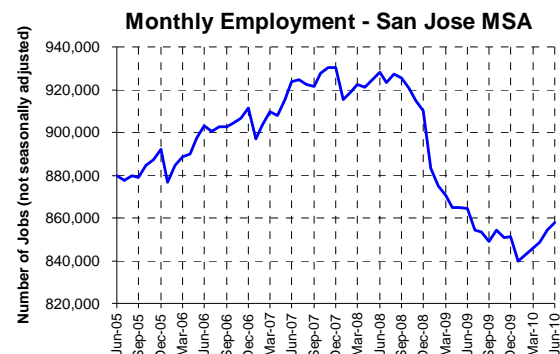
Assuming the federal government is successful, real GDP is expected to grow in the 2.3%-3.5% range during 2010-2011, at approximately the historical average, and the unemployment rate is expected to decline from 9.5% to just below 9.0% by the end of the fiscal year.

The determinants of inflation – employment, manufacturing capacity utilization, and energy prices – are all projected to remain relatively low during 2010-2011. Inflation is expected to remain within a range of 1.2%-2.0%.

City of San José Outlook

Moderate growth in the global and national economies is expected to produce only moderate growth in the local economy. Local employment levels are expected to increase at a rate well below the historical norm and the unemployment rate will remain high.

As of June 2010, employment in the San José Metropolitan Statistical Area (MSA) remained below the prior year level. The June 2010 employment level of 858,000 was 0.1% below the June 2009 employment level of 864,500. From June 2009 to June 2010, the San José MSA lost 6,500 jobs.



The San José metropolitan area continued to experience double-digit unemployment, with the June 2010 unemployment rate of 11.4%

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Overview (Cont'd.)

Economic Performance (Cont'd.)

increasing from the May 2010 rate of 11.2% and relatively close to the January 2010 high of 12.4%. The June 2010 figure is slightly lower than the 11.7% rate experienced a year ago. The June 2010 unemployment rate in this region is less than the unadjusted unemployment rate for the State, but remains above the nation, which had a June unadjusted unemployment rate of 9.6%.

Unemployment Rate (Unadjusted)

	June 2009	May 2010	June 2010
San José Metropolitan Statistical Area	11.7%	11.2%	11.4%
State of California	11.6%	11.9%	12.2%
United States	9.7%	9.3%	9.6%

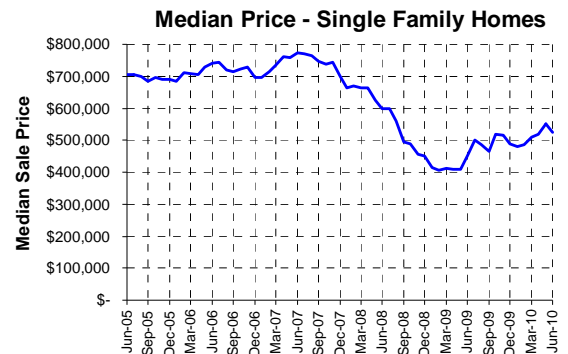
Source: California Employment Development Department

Through June, permit activity for residential and industrial construction remained significantly below prior year levels. Only 573 residential permits were issued in 2009-2010 compared with 1,071 residential permits issued in 2008-2009, a 46% drop. The \$114.8 million of industrial permits issued in 2009-2010 shows a 51% drop from the prior year valuation of \$234.9 million. Reflecting a surge of activity in the last four months of the fiscal year, the total valuation of commercial permits issued in 2009-2010 grew to \$264.9 million, a 19% increase from the prior year valuation of \$222.5 million. It should be noted, however, that the 2008-2009 valuation reflects a 35% drop from the 2007-2008 valuation.

This permit activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees. Additionally,

over the last ten years, the construction industry has provided approximately 5% of the region's jobs; so the reduction in permit activity is expected to contribute to a slow recovery in local employment.

On a more positive note, the June 2010 median home price of \$523,500 for single family homes within the City was 16.6% above the June 2009 median of \$449,000. June marked the ninth consecutive month in which the median home price increased from the same month in the prior year. Despite this improvement, housing prices remained well below the levels seen in recent years.



Another positive indicator for the local real estate market was the drop in average days-on-market from the high of 90 in June 2009 to 56 in June 2010. Moreover, during 2009-2010, the 6,707 total property transfers (completed sales) for single family homes was the highest number for a fiscal year since 2005-2006.

In summary, the slow pace of recovery from the economic recession is expected to impact the City's economic performance in 2010-2011. The deep decline in the City's revenue collections over the past year coupled with the slow growth projected over the next year produces an estimate of 2010-2011 annual revenues which will be substantially lower than what the City has experienced in recent fiscal years.

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Impact on Non-Economically Sensitive Revenues

The economic conditions discussed above are the primary drivers for the economically sensitive revenues, with the most significant impacts in the Sales Tax and Property Tax categories. Performance in other areas, however, is primarily driven by other factors. For example, the Utility Tax and Franchise Fee categories are more heavily impacted by utility rate changes and energy prices. Collections from local, State, and federal agencies are primarily driven by the grant and reimbursement funding available from these agencies. As a result, these General Fund revenues experience no significant net gain or loss in times of an economic expansion or slowdown, respectively. Because these revenue sources do not track directly with the performance of the economy, the growth in these areas, even in times of economic strength, can dampen the City's overall revenue growth. Conversely, in an economic slowdown, these categories can act as a buffer, easing the impact of declines in the economically sensitive revenue categories.

Revised General Fund Forecast

Between the issuance of the February Forecast and the release of the Adopted Budget, staff has continued to review and update the estimated revenue collections for 2010-2011. Based on this analysis, a number of the revenue estimates presented in the February Forecast were revised in the Adopted Budget to reflect more recent information. The net result of these revisions is a downward adjustment (\$1.2 million) to the Forecast from \$790.1 million to \$788.9 million. Following is a summary table and descriptions of the changes incorporated into the revised Forecast that was used as the

starting point in preparing the 2010-2011 Adopted Budget.

2010-2011 Revised Forecast Changes

Category	\$ Millions
Transfers and Reimbursements	(1.29)
Licenses and Permits	(0.21)
Telephone Line Tax	(0.18)
Revenue from Local Agencies	0.29
Fines, Forfeitures and Penalties	0.17
Miscellaneous Revisions	0.04
Total	(\$ 1.18)

- The Transfers and Reimbursements category decreased by \$1.3 million. This reflected a decrease of \$1.0 million to the estimated transfers of interest earnings from other funds based on actual collection trends and expected interest earnings rates; a decrease of \$388,000 to the overhead earnings assumption; increased transfers of \$136,000 from the Integrated Waste Management Fund, \$7,000 from the Community Facilities Revenue Fund, and \$2,000 from the Ice Centre Revenue Fund; and decreased transfers of \$29,000 from the Convention and Cultural Affairs Fund, \$21,000 from the Airport Operations and Maintenance Fund for Police and Fire Services, and \$1,000 from the Deferred Compensation Fund, each based on a revised reimbursement-related cost estimate.
- The Licenses and Permits category decreased by \$206,000 based on current collection trends. This reflected lower revenue estimates for the Business Tax (\$250,000), Fire Permits (\$40,000), Cardroom Table Fees (\$3,000), and Multiple Housing Permit Transfer Fees (\$2,000), partially offset by increases to the Building Permits (\$51,000), Multiple Housing Occupancy Permits (\$28,000), and Miscellaneous (\$10,000) categories.

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Overview (Cont'd.)

Revised General Fund Forecast (Cont'd.)

- The Telephone Line Tax category decreased by \$175,000 reflecting collection experience year-to-date in 2009-2010.
- The Revenue from Local Agencies category increased by \$290,000 to reflect a correction to the anticipated reimbursement from the San Jose Redevelopment Agency for Blight Abatement Services provided by the Department of Transportation (\$261,000) and a net increase to anticipated reimbursements from the County of Santa Clara (\$29,000).
- The Fines, Forfeitures and Penalties category increased by \$168,000 to reflect higher estimates for the Labor Compliance Penalty Revenue (\$150,000) and Fire Administrative Citations (\$18,000) categories.

Changes from Revised Forecast to Adopted Budget

From the Revised Forecast of \$788.9 million, a net increase of \$139.3 million to the General Fund revenue estimates was approved, bringing the 2010-2011 Adopted Budget revenue estimate to \$928.2 million. The components of the \$139.3 million increase include mostly higher revenue estimates (\$46.7 million) and an increase in the estimate for the 2009-2010 Ending Fund Balance/2010-2011 Beginning Fund Balance (\$92.6 million).

These changes are summarized in the following table:

2010-2011 Adopted Budget Changes

Category	\$ Millions
Fund Balance	92.64
Transfers and Reimbursements	13.31
Revenue from Federal Govt. - Recovery Act	10.70
Revenue from the State	10.10
Licenses and Permits	7.88
Revenue from Federal Govt.	4.80
Franchise Fees	2.00
Departmental Charges	0.22
Fines, Forfeitures and Penalties	0.22
Use of Money and Property	0.14
Revenue from Local Agencies	(2.52)
Other Revenue	(0.15)
Total	\$ 139.34

A brief discussion of these changes is presented on the following pages.

- The higher fund balance of \$92.6 million primarily reflects the rebudget of funds for expenditure-related line items and unexpended reserves (\$63.2 million) which are brought to City Council at the end of the budget process. The higher fund balance also reflects the liquidation of several 2009-2010 reserves (\$12.3 million), litigation settlements (\$10.0 million), an increase in expectations for expenditure savings in 2009-2010 (\$4.5 million), higher than anticipated third quarter Sales tax revenues (\$2.3 million), and higher than expected liquidation of encumbrances (\$0.4 million). The largest reserves allocated for use in the 2010-2011 Adopted Budget include: the Retiree Healthcare Funding Liability Reserve (\$4.8 million); the Future Capital Projects (FF&E) Reserve (\$2.4 million); the Neighborhood Investment Fund Reserve (\$1.5 million); and the Fire Development Fee Reserves (\$924,000). Additional expenditure savings are projected from

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Changes from Forecast to Adopted Budget (Cont'd.)

several projects and departments, with approximately two-thirds of the unexpended funds anticipated from Mayor and City Council Offices (\$1.3 million), the Streetlight electricity credit from PG&E (\$1.0 million), and the Tamien Specific Plan Area Park allocation (\$622,000).

- The \$13.3 million increase to the Transfers and Reimbursements category includes additional transfers of \$14.3 million offset by a reduction in the overhead revenue estimate of \$1.0 million. An approved transfer of \$6.5 million from the Healthy Neighborhoods Venture Fund, \$2.4 million from the Integrated Waste Management Fund, \$1.7 million from the Construction Excise Tax Fund, and \$1.4 million from the Construction and Conveyance Tax Fund are the largest increases in this category. A downward adjustment of \$205,000 to the Transfers from the Airport Operations and Maintenance Fund for Police Services reflects reductions in that program.
- The \$10.7 million increase to the Revenue from the Federal Government – American Recovery and Reinvestment Act category reflects the rebudget of grants from 2009-2010 to 2010-2011 (\$10.3 million) as well as the recognition of new grant funding for 2010-2011 (\$385,000).
- The \$10.1 million increase to the Revenue from the State category primarily consists of tobacco settlement revenues (\$9.5 million) that will flow to the General Fund beginning in 2010-2011 as part of the consolidation of the Healthy Neighborhoods Venture Fund into the General Fund. The increase also includes

a variety of public safety and other grant program funds (\$569,000).

- The majority of the \$7.9 million increase to the Licenses and Permits category will be generated from the changes to the Cardroom Tax approved by voters in June 2010. A combination of a higher tax rate and an increase in the maximum number of tables at each card club is expected to generate \$5 million annually. Increases in Building Permit (\$1.2 million), Fire Permit (\$637,000), and Multiple Housing Permit (\$376,000) revenues reflect updated fees to remain at cost recovery as well as additional revenue that is expected to be generated from the increased Special Tenant Improvements (STI)/Industrial Tool Installation (ITI) Program capacity. Additionally, an increase of \$320,000 for Animal Control Services licensing fee revenue reflects increased outreach and collection activity in this category. An increase of \$250,000 for the Business Tax Hardship Exemption Fee results from a City Council decision not to suspend the fee. A decrease of \$2,000 for taxi stand rental reflects a lower level of activity.
- The \$4.8 million increase to the Revenue from the Federal Government category reflects the rebudget of grants from 2009-2010 to 2010-2011 (\$2.7 million) as well as the recognition of new grant funding for 2010-2011 (\$2.1 million). The new grant funding consists primarily of a grant to partially fund replacement of Fire Department self-contained breathing apparatus (\$1.7 million), the Police Northern California Regional Intelligence Center SUASI – Police grant (\$221,000), and the Police 2009 Child Sexual Predator Program grant (\$282,000). This category also includes a decrease to reflect the elimination of the Senior Volunteer Program grant (\$92,000).

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Overview (Cont'd.)

Changes from Forecast to Adopted Budget (Cont'd.)

- The Franchise Fees category was adjusted upwards by \$2.0 million to reflect the addition of a 0.3% surcharge on Pacific Gas and Electric Company's (PG&E) electricity and gas revenues. Because the Franchise Fee surcharge is not anticipated to become effective until September 2010, the 2010-2011 Franchise Fee surcharge revenue represents only ten months of collections.
- The \$220,000 increase to the Fines, Forfeitures and Penalties category reflects City participation in a parking citation collection program offered by the Franchise Tax Board (\$200,000) and the adoption of a parking citation dismissal fee (\$20,000).
- The increase of \$218,000 in the Departmental Charges category reflects fees which have been updated to remain at cost recovery in the various fee programs (\$1.3 million) and implementation of a new Library Fine (\$30,000). These increases are almost entirely offset by the reduction or elimination of fee-generating programs such as city-wide sports, and a one year suspension of San José Family Camp (\$1.1 million).
- The \$141,000 increase to the Use of Money and Property category reflects increased interest earnings in the General Fund (\$81,000) as a result of a reduction in investment program reimbursements that are funded by system-wide interest earnings. Additional revenue of \$60,000

is anticipated from leasing the City suite at HP Pavilion to Silicon Valley Sports and Entertainment for ten Sharks game dates.

- The decrease of \$2.5 million to the Revenue from Local Agencies category consists primarily of decreased reimbursements from the San Jose Redevelopment Agency (SJRA) to support City activities (\$4.3 million). This decrease is partially offset by an increase in SB720 booking revenue to support staffing for the Police central identification program (\$1.2 million), an increase of \$306,000 from the County of Santa Clara for the Senior Nutrition Program, and an increase of \$296,000 from PG&E for the Silicon Valley Energy Watch Program.
- The \$154,000 decrease to the Other Revenue category reflects a reduction of \$581,000 in reimbursements from interest earnings for the City's Investment Program staff resulting from a reduction of staff in that program. This reduction is partially offset by the addition of \$400,000 for Wellness Program funding from the City's health services providers, an Enhanced Fitness Program grant of \$25,000 from the Health Trust of Silicon Valley, and \$2,000 of revenue related to the sale of new subdivision signage.

GENERAL FUND REVENUE ESTIMATES

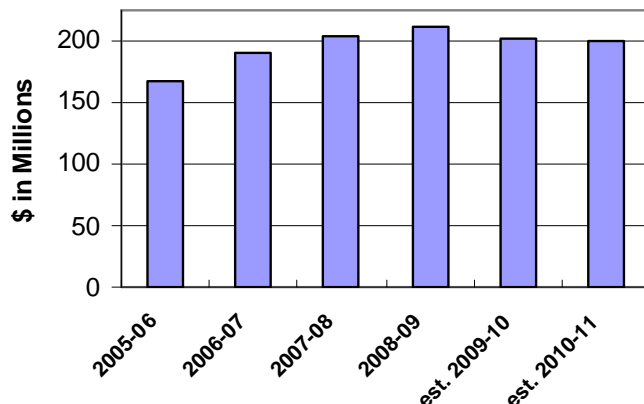
PROPERTY TAX

2008-2009 Actual	\$210,843,575
2009-2010 Adopted	\$198,249,000
2010-2011 Forecast	\$199,052,000
2010-2011 Adopted	\$199,052,000
% of General Fund	21.4%
% Change from 2009-2010 Adopted	0.4%

Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale)
- Homeowner's Property Tax Relief Exemption

Collection Trend:



Revenue Estimates:

Property Tax receipts of \$201.4 million are projected for 2009-2010, which represents a decline of 4.5% from the prior year. This decline reflects decreases in both the Secured and SB 813 (property resales) categories. In 2010-2011, collections are expected to drop an additional 1.2% to \$199.1 million.

Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Tax

Secured Property Taxes account for approximately 90% of the revenues in the Property Tax category. In 2009-2010, Secured Property Tax receipts are expected to drop to \$185.3 million, a decrease of 3.7% from the prior year. This decline marks one of the worst performances in the City's history for this revenue category. For the 2009-2010 property tax assessment roll, over 52,000 properties received a downward adjustment from the County Assessor based on the decline in property tax values.

In 2010-2011, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2010, are expected to decline an additional 1%. This projected drop is related to two factors: the drop in the California Consumer Price Index (CCPI) and the anticipated drop in commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership or new construction. The CCPI adjustment for the 2010-2011 tax roll is a decrease of 0.237%. Since Proposition 13 was approved by the voters in 1978, the CPI has exceeded the 2% limit in all but six years and this will be the first time the CCPI will actually be negative.

GENERAL FUND REVENUE ESTIMATES

Property Tax (Cont'd.)

In addition to the drop in the CCPI, it is anticipated that the valuation for commercial property will drop in 2010-2011. The impact of these reassessments is not yet known. In the residential property area, property valuation is expected to remain relatively flat. Residential real estate continued to experience declines through the first half of 2009, but then has shown improvement over the last year. The January 2010 median sales price of \$481,000 for single family homes was 15.9% above the January 2009 level of \$415,000. This upward trend has continued as reflected in the June 2010 median sales price of \$523,500. Given the large declines in the residential real estate category experienced in 2009 and the improvement over the last year, a further decline in the Secured Property Tax category associated with residential properties beyond the CCPI adjustment is currently not expected in 2010-2011.

Unsecured Property Tax

Unsecured Property Taxes are the second largest revenue source in the Property Tax category. Growth in Unsecured Property Tax is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in Unsecured Property Tax has been extremely volatile with annual growth or declines reaching double-

digit levels based primarily on the strength of the local business sector. Based on actual collections, receipts in this category are expected to reach \$12.0 million in 2009-2010, which is slightly above the 2008-2009 collection level of \$11.7 million. Given the continued weakness in the economy and the lag in personal property valuation, collections are expected to decrease 6.7% in 2010-2011 to \$11.2 million.

SB 813 Property Tax (Property Resales)

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. Based on the downward collection trend and the most recent estimate from the County of Santa Clara Controller's Office, receipts in this category are expected to total \$3.0 million in 2009-2010, a drop of 47% from the 2008-2009 level. In 2010-2011, collections are projected to improve from this extremely low collection level with an increase of 10% to \$3.3 million.

Homeowner's Exemption

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household property tax exemption granted by current State law. Revenues in this category are projected at \$1.1 million for 2010-2011, which is consistent with the 2009-2010 revenue estimate.

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SALES TAX

2008-2009 Actual	\$132,005,205
2009-2010 Adopted	\$135,795,000
2010-2011 Forecast	\$127,232,000
2010-2011 Adopted	\$127,232,000
% of General Fund	13.7%
% Change from 2009-2010 Adopted	(6.3%)

Major Categories:

- General Sales Tax
- Public Safety (Proposition 172) Sales Tax

Distribution of Sales Tax:

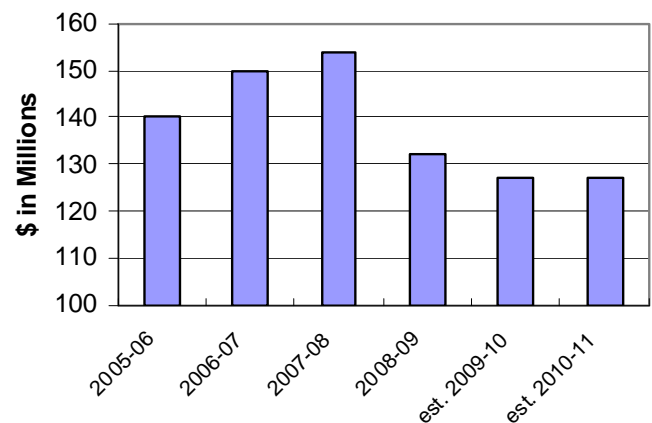
As shown below, the City receives 1.0% of the 9.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected state-wide.

<u>Agency</u>	<u>Distribution Percentage</u>
State of California	6.50%
City of San José	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	0.50%
Total Sales Tax Rate	9.25%

Starting in 2004-2005, the City has been impacted by the State action known as the “Triple Flip”, which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 0.25% of the City’s one percent Bradley-Burns sales tax has been temporarily

suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, is to last only for the life of the bonds. The City will, however, continue to record the replacement property tax revenues as sales tax because the growth formula for these receipts is tied to sales tax and this action is considered a temporary property tax in lieu of sales tax.

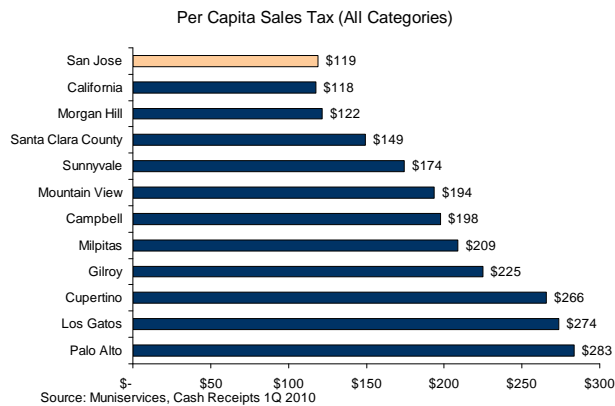
Collection Trend:



As shown in the chart below, the per capita Sales Tax in San José is typically lower than in neighboring cities.

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Sales Tax (Cont'd.)



Revenue Estimates:

Overall, collections are expected to decrease 3.8% in 2009-2010 to \$127.0 million. When the 2010-2011 Proposed Budget estimate was developed, growth of only 2.0% was expected based on a lower 2009-2010 revenue estimate. More recent information about the state of the local economy suggests that, despite some improvement in the last half of 2009-2010, Sales Tax revenue growth is likely to be relatively minimal in 2010-2011.

General Sales Tax

The forecast for the General Sales Tax revenue estimate assumed collections of \$121.0 million in 2009-2010, a decrease of 5.3% from the 2008-2009 collection level of \$127.8 million. 2009-2010 represents the second year in a row where declines are anticipated to be realized in General Sales Tax collections. In 2008-2009, collections fell 14.5% below the prior year (2007-2008) collection level. The Revised Forecast estimate of 2009-2010 Sales Tax receipts of \$123.3 million is well below peak collections of \$169.2 million in 2000-2001.

The weak economic conditions and prolonged recession led to significant Sales Tax declines in the first two quarters of 2009-2010. On a cash basis, quarterly performance compared

to the prior year quarter experienced a drop of 12.8% in the first quarter, followed by a decline of 5.3% in the second quarter.

The 2010-2011 Adopted Budget estimate of \$123.4 million was built on the assumption of 2.0% growth from the February Forecast estimate of \$121.0 million. For both the third and fourth quarters, it was projected that collections would increase by approximately 4.5% from the same periods in the prior year. These modest increases were considered prudent given the deep declines experienced during the last two quarters of 2008-2009 (declines of approximately 28-29% were experienced).

The 2010-2011 Sales Tax revenue estimate was built on the assumption that the continuing economic slowdown and gradual recovery will negatively impact collections in both 2009-2010 and 2010-2011. Consumer spending is expected to continue to be weak. The high unemployment rates, low consumer confidence levels, and the loss of consumer wealth due to stock market declines and home value losses are expected to hold down consumer spending. Sales tax collections from the business-to-business sector, which in the first three quarters of 2009-2010 declined 10.7% from the same period in 2008-2009, are also expected to remain well below prior year levels.

Actual cash receipts for the third quarter of 2009-2010 grew by 13.0% and exceeded the forecast estimate by \$2.3 million. Those additional revenues were used in balancing the 2010-2011 Adopted Budget and increased the 2009-2010 Revised Forecast estimate to \$123.3 million. Because detailed information about third quarter Sales Tax performance was not available and information about the fourth quarter sales tax receipts will not be available until mid-September 2010, the 2010-2011 revenue was not increased as part of the Adopted Budget process. After a thorough

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Sales Tax (Cont'd.)

analysis of the third and fourth quarter Sales Tax collections, staff will bring forward any recommended adjustments to the 2010-2011 Sales Tax revenue estimate as part of the 2009-2010 Annual Report.

Consistent with past years, Sales Tax Collections will be carefully monitored during the year and the status reported to the City Council through the Bi-Monthly Financial Reports.

Public Safety (Proposition 172) Sales Tax

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total \$3.7 million in 2009-2010, which represents a decline of 12.0% from the actual 2008-2009 collections of \$4.2 million based on activity through the first seven months of 2009-2010. In 2010-2011, collections are projected to increase 2.7% to \$3.8 million.

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TRANSIENT OCCUPANCY TAX

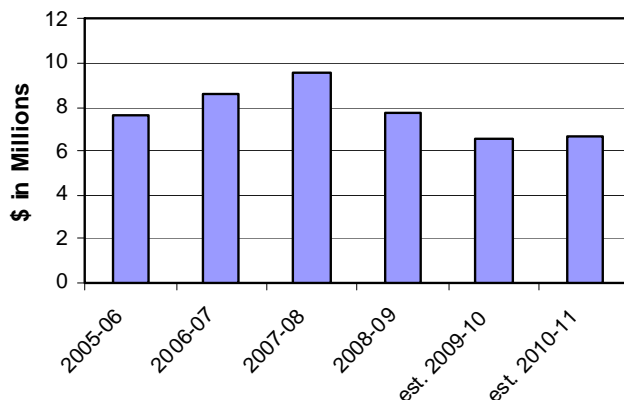
2008-2009 Actual	\$7,795,177
2009-2010 Adopted	\$6,553,000
2010-2011 Forecast	\$6,684,000
2010-2011 Adopted	\$6,684,000
% of General Fund	0.7%
% Change from 2009-2010 Adopted	2.0%

Distribution of Transient Occupancy Tax:

The City of San José assesses a ten percent Transient Occupancy Tax (TOT) on the rental price for transient lodging. Of this ten percent, six percent is placed in the Transient Occupancy Tax Fund and four percent is deposited in the General Fund. This discussion addresses the portion of the Transient Occupancy Tax that is allocated to the General Fund.

The allocation of the six percent portion is described in the Source and Use Statement for the Transient Occupancy Tax Fund as well as in the Selected Special Funds Summaries section of this document.

Collection Trend:



Revenue Estimate:

It is currently estimated that Transient Occupancy Tax receipts for 2009-2010 will total \$6.6 million, reflecting a decline of 15.9% from the 2008-2009 collection level. When this projected drop in revenue is added to the 18.5% decline experienced in 2008-2009, total receipts in 2009-2010 are expected to be 31.5% (\$3.0 million) below the \$9.6 million collected in 2007-2008.

In 2010-2011, slight growth of 2.0% from the 2009-2010 estimate is anticipated, bringing the estimate to \$6.7 million. This revenue projection is supported by a study performed by Horwath HTL, an independent consultant, and incorporates the anticipated construction-period impacts from the Convention Center expansion project as well as a slow economic recovery.

GENERAL FUND REVENUE ESTIMATES

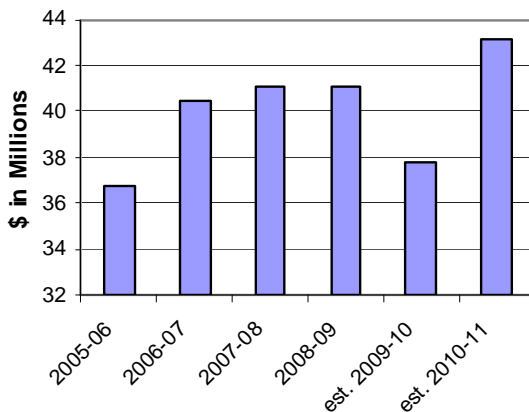
FRANCHISE FEES

2008-2009 Actual	\$41,067,393
2009-2010 Adopted	\$41,422,000
2010-2011 Forecast	\$41,121,000
2010-2011 Adopted	\$43,121,000
% of General Fund	4.6%
% Change from 2009-2010 Adopted	4.1%

Major Categories:

- Electricity, Gas, and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

Collection Trend:



Revenue Estimates:

Franchise Fees are expected to total \$37.8 million in 2009-2010. In 2010-2011, Franchise Fees are expected to increase 14.0% to \$43.1 million due primarily to growth in the Electricity (17.6%) and Gas (55.5%) Franchise Fee categories.

Electricity, Gas, and Water Utility Services

The 2009-2010 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on PG&E's revenues in calendar year 2009. Collections are expected to total \$15.0 million in the Electric Franchise Fee category and \$4.0 million in the Gas Franchise Fee category.

The 2010-2011 Adopted Budget estimate for both the Electricity and Gas Franchise Fees is based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts. The actual receipts will be based on activity in calendar year 2010.

As part of a legal settlement, the City and PG&E have agreed to a 0.3% Franchise Fee surcharge on PG&E electricity and gas revenues. This surcharge was approved by the California Public Utilities Commission on May 5, 2010. Implementation of the surcharge is anticipated to begin in September 2010, and surcharge revenues for electricity (\$1.6 million) and gas (\$400,000) are included in the Adopted Budget.

The 2010-2011 increase in the Electricity category to \$17.6 million reflects anticipated rate increases, and the addition of the surcharge, as well as the assumption that a rebate to consumers will not be implemented in calendar year 2010.

GENERAL FUND REVENUE ESTIMATES

Franchise Fees (Cont'd.)

The 2010-2011 increase in the Gas Franchise Fee category, to \$6.2 million, reflects projected increases in gas prices in calendar year 2010 and the addition of the surcharge. The estimated changes in gas prices are based on Gas Rate Forecast information provided by PG&E. Actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Franchise Fees are expected to total \$239,000 in 2010-2011, based on the assumption that collections will remain at projected 2009-2010 levels. Rate increases in this category are anticipated to be offset by lower consumption associated with potential water conservation efforts. As with the Gas Franchise Fees, collections in this area can vary based on the impact of weather conditions that may influence water usage.

Commercial Solid Waste

The 2010-2011 Commercial Solid Waste (CSW) Franchise Fee revenue estimate of

\$10.4 million is built on the assumption that collections will remain close to the 2009-2010 estimated collection levels. Collections in this category have experienced declines in recent years, impacted by the severe economic downturn. Increased recycling may also account for some of this decline.

Cable Television

The 2010-2011 Adopted Budget estimate for Cable Television Franchise Fee revenue of \$7.5 million reflects an increase of 2% from the 2009-2010 estimated collection level.

City-Generated Towing and Nitrogen Pipelines

Consistent with current year performance, City-Generated Towing Franchise Fee revenues are expected to total \$1.1 million in 2010-2011 and proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$50,000 in 2010-2011.

GENERAL FUND REVENUE ESTIMATES

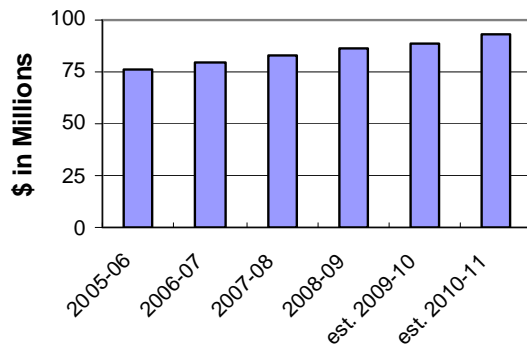
UTILITY TAX

2008-2009 Actual	\$85,749,565
2009-2010 Adopted	\$84,959,000
2010-2011 Forecast	\$92,932,000
2010-2011 Adopted	\$92,932,000
% of General Fund	10.0%
% Change from 2009-2010 Adopted	9.4%

Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

Collection Trend:



Revenue Estimates:

Electricity Utility Tax

The 2009-2010 year-end estimate of \$37.6 million for Electricity Utility Taxes represents a 0.2% increase when compared to 2008-2009 actual collection levels, and reflects the impact of a one-time rebate. In 2010-2011, collections are estimated to increase an additional 4.3% and reach \$39.2 million, based on estimated rate increases.

Gas Utility Tax

It is anticipated that Gas Utility Taxes will total approximately \$8.7 million in 2009-2010 and \$10.6 million in 2010-2011 based on the assumption that Gas rates, which have experienced declines in 2009-2010, will increase in 2010-2011. As discussed above under the Gas Franchise Fee category, the estimated changes in gas prices are based on Gas Rate Forecast information provided by PG&E. Actual collections in the Gas Utility Tax area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Utility Tax

In 2009-2010, Water Utility Tax collections are expected to reach \$9.0 million. Growth of 6.7% is projected in 2010-2011, bringing the estimate to \$9.6 million. This growth is based on projected rate increases in this category of 9-12%, offset by lower consumption associated with potential water conservation efforts.

Telephone Utility Tax

Reflecting the implementation of Measure K that was approved by voters in November 2008 and became effective in April 2009, 2009-2010 collections in the Telephone Utility Tax category are expected to reach \$32.8 million. Measure K lowered the Telephone

GENERAL FUND REVENUE ESTIMATES

Utility Tax (Cont'd.)

Utility Tax rate by 10% and modernized the tax base. The modernization of the tax base, which included adding international and interstate calls as well as toll free numbers and fax machines, appears to have more than

offset the decline in revenues associated with the 10% reduction in the tax rate. In 2010-2011, collections are expected to grow approximately 2% to \$33.5 million.

GENERAL FUND REVENUE ESTIMATES

TELEPHONE LINE TAX

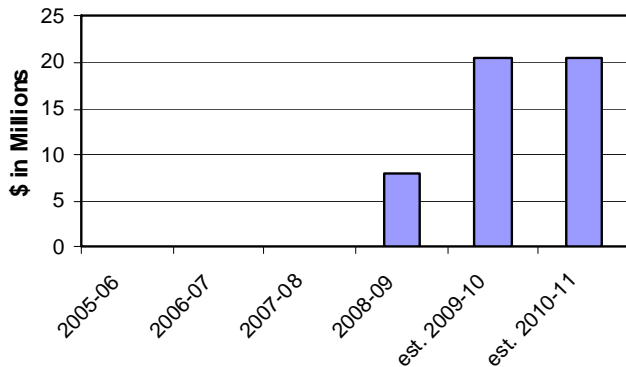
2008-2009 Actual	\$7,869,559
2009-2010 Adopted	\$21,600,000
2010-2011 Forecast*	\$20,525,000
2010-2011 Adopted	\$20,525,000
% of General Fund	2.2%
% Change from 2009-2010 Adopted	(5.0%)

* Decreased by \$175,000 to reflect lower year-to-date collections in 2009-2010.

Telephone Line Tax Implementation:

In November 2008, voters approved a ballot measure that replaced the Emergency Communication System Support (ECSS) Fee with a Telephone Tax. The tax was set at a rate 10% below the ECSS Fee.

Collection Trend:



Revenue Estimates:

The 2008-2009 collections in this category reflect only approximately three months of revenue.

Based on current collection trends, receipts in this category are expected to total \$20.5 million in both 2009-2010 and 2010-2011.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

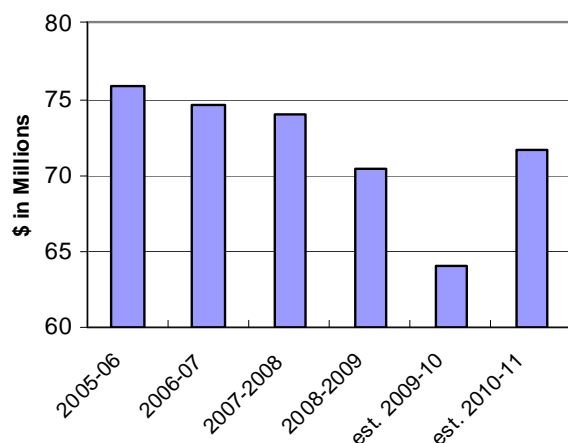
2008-2009 Actual	\$70,387,660
2009-2010 Adopted	\$70,862,027
2010-2011 Forecast*	\$63,845,652
2010-2011 Adopted	\$71,726,912
% of General Fund	7.7%
% Change from 2009-2010 Adopted	1.2%

* Decreased by \$0.2 million to reflect lower collections in the Business Tax (\$250,000), Fire Permits (\$40,000), Cardroom Table Fees (\$3,000), and Multiple Housing Permit Transfer Fees (\$2,000), partially offset by increases to the Building Permits (\$51,000), Multiple Housing Occupancy Permits (\$28,000), and Miscellaneous (\$10,000) categories.

Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Fire Permits
- Building Permits
- Miscellaneous Other Licenses and Permits

Collection Trend:



Revenue Estimates:

Business Tax

In 2009-2010, Business Tax proceeds are expected to total \$11.0 million, which is well

below the 2009-2010 Adopted Budget estimate of \$12.6 million. The severe economic downturn has reduced the number of businesses and staffing levels, and increased the number of hardship exemptions, both of which have directly impacted Business Tax receipts. In the 2010-2011 Forecast, growth of 2% was assumed, bringing collections to \$11.25 million in 2010-2011. Although, as part of the Revised Forecast, this estimate was adjusted downwards by \$250,000 to \$11.0 million to reflect the potential loss of revenue from the Business Tax exemption fee, this revenue is included in the Adopted Budget estimate, bringing the 2010-2011 estimate to \$11.25 million.

Cardroom Tax

Based on current performance, collections in the Cardroom Tax category are estimated at \$12.7 million in 2009-2010, a decrease of 7.0% from the 2008-2009 collection level. Receipts are expected to increase by \$5.0 million to \$17.7 million in 2010-2011 based on the Cardroom Tax ballot measure that was approved by the voters in June 2010. The ballot measure increased the Cardroom Tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98.

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits (Cont'd.)

Disposal Facility Tax

In the Disposal Facility Tax category, collections are estimated at \$11.6 million in 2009-2010 based on current collection trends. This reflects a decline of 4.4% from the 2008-2009 collection level. Receipts are expected to remain at \$11.6 million in 2010-2011 as reductions associated with waste diversion are expected to offset any increase in economic activity.

Fire Permits

The 2010-2011 Adopted Budget revenue estimate of \$7.1 million for Fire Permits is well below the 2009-2010 Adopted Budget of \$7.9 million, reflecting the steep decline in development activity. The Fire Fee Program aligns projected revenues and costs to remain at 100% cost recovery.

This fee program includes both the development and non-development fee areas. To maintain cost recovery in these areas for 2010-2011, a number of budget actions were approved in the Adopted Budget. In the development fee area, approved budget adjustments include the net reduction of 5.0 positions (elimination of 5.0 existing positions, the addition of funding for 2.0 new positions, and funding shifts of 2.0 positions from the development area to non-development). Revenue increase is estimated for a new Residential Sprinkler code effective January 2011 (\$15,000), a 2% general fee increase (\$56,000), and increased usage for Special Tenant Improvements/Industrial Tools Improvements (\$124,000). Because the 2010-2011 projected revenues with the recommended adjustments are insufficient to cover the budgeted costs in the development fee program, the use of \$924,000 from the \$2.2 million Fire Development Program Fee Reserve was approved.

In the non-development area, there is a net increase of 1.0 position, including the elimination of 1.0 position and funding shifts for 2.0 positions that were described previously. A 5.5% general fee increase was approved for this fee program, and an additional \$239,000 in revenue associated with the revised hazardous materials quantity ranges fee structure is being recognized.

Additional detail on these budget actions is provided in the Fire Department under the City Departments section of this document. A more detailed description of the changes to the various fees is provided in the 2010-2011 Adopted Fees and Charges document that is released under separate cover.

Building Permits

The 2010-2011 Adopted Budget revenue estimate of \$15.7 million reflects an 8.3% increase from the 2009-2010 estimate of \$14.5 million. This increase reflects the following approved fee adjustments: increase the Permit Center hourly fee by 27% to \$160 (\$500,000) and addition of a third Express Plan Review line and a second Special Tenants Improvement/Industrial Tool Improvements line (\$388,000).

Approved expenditure adjustments include the restoration of 12.5 positions on a one-time basis and the reallocation of 0.21 Planner from the Planning Fee program and 0.45 Senior Engineer from Redevelopment Agency support. These adjustments provide staffing for the additional Express Plan Review and Special Tenants Improvement/Industrial Tool Improvements lines and customer assistance in the Permit Center, improving the services available to the development community. With these actions, the Building Fee Program is expected to remain at 100% cost recovery. The \$2.0 million Building Fee Program Reserve remains intact to address any potential revenue shortfalls in 2010-2011.

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits (Cont'd.)

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement Department under the City Departments section of this document. A more detailed description of the changes to the various fees is provided in the 2010-2011 Adopted Fees and Charges document that is released under separate cover.

Miscellaneous Other Licenses and Permits

The 2010-2011 Adopted Budget includes \$8.4 million for a variety of other Licenses and

Permits. This figure incorporates approved budget actions that total \$830,000 and represent: a \$376,000 increase from the base estimate in Multiple Housing Permit fee revenue to reach 100% cost recovery; a \$320,000 increase in Animal Control Services licensing fees reflecting increased licensing outreach and collection efforts, increases to Police-related permits (\$93,000), increases to various code enforcement-related permits and services to bring to cost recovery (\$43,000), and a reduction in taxi stand rental revenues (\$2,000).

GENERAL FUND REVENUE ESTIMATES

FINES, FORFEITURES, AND PENALTIES

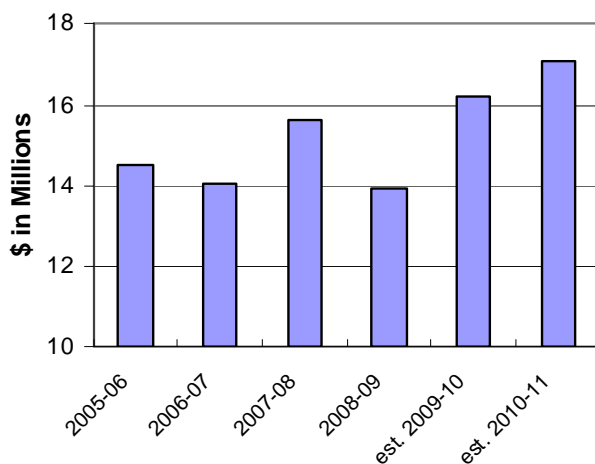
2008-2009 Actual	\$13,905,029
2009-2010 Adopted	\$18,346,000
2010-2011 Forecast*	\$16,910,000
2010-2011 Adopted	\$17,130,000
% of General Fund	1.8%
% Change from 2009-2010 Adopted	(6.6%)

* Increased by \$168,000 to reflect higher labor compliance penalty revenue (\$150,000) and Fire Department administrative citations (\$18,000).

Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Court Fines
- Business Tax Penalties
- Administrative Citation Program
- Police False Alarm Fines
- Other Fines and Penalties

Collection Trend:



Revenue Estimates:

For 2010-2011, overall collections in this category are expected to reach \$17.1 million, an increase from the 2009-2010 estimate of

\$16.2 million. Following is a discussion of the major components of this category.

Vehicle Code and Municipal Court Fines

In 2010-2011, Vehicle Code Fines are estimated at \$3.0 million and Municipal Court Fines are expected to reach \$1.0 million, consistent with current collection patterns for these revenue categories.

Parking Fines

Parking Fines are currently anticipated to generate approximately \$10.0 million in 2009-2010. For 2010-2011, the base revenue estimate for Parking Fines was expected to increase to \$10.5 million. That increase was based on the assumptions that overall economic conditions will improve and result in increased parking activity. The additional productivity will be realized in 2010-2011 as less time will be allocated to training new staff than in 2009-2010.

As part of the 2010-2011 Adopted Budget, the Parking Fines revenue estimate was increased by \$220,000 to \$10.7 million. The majority of this change (\$200,000) reflects City participation in a collection program offered by the Franchise Tax Board. In addition, a new parking citation dismissal fee is expected to generate \$20,000 in 2010-2011.

GENERAL FUND REVENUE ESTIMATES

Fines, Forfeitures, and Penalties (Cont'd.)

Business Tax Penalties

Business Tax penalties are projected at \$1 million for 2010-2011, which is consistent with historical collection patterns.

Administrative Citation Program

The Administrative Citation Program is projected to generate 2010-2011 revenues of approximately \$431,000 in fines and an additional \$75,000 in penalties, for a total of \$506,000. These estimates are consistent with the 2009-2010 year-end estimates.

Police False Alarm Fines

The Police False Alarm Fines were restructured in the 2009-2010 Adopted Budget, effective August 1, 2009. For 2009-2010 and 2010-2011, False Alarm Fines and Penalties are expected to generate approximately \$452,000 of revenue.

Other Fines and Penalties

In 2010-2011, other Fines and Penalties are expected to generate \$444,000 from a variety of sources, including \$150,000 from labor compliance penalty revenue.

GENERAL FUND REVENUE ESTIMATES

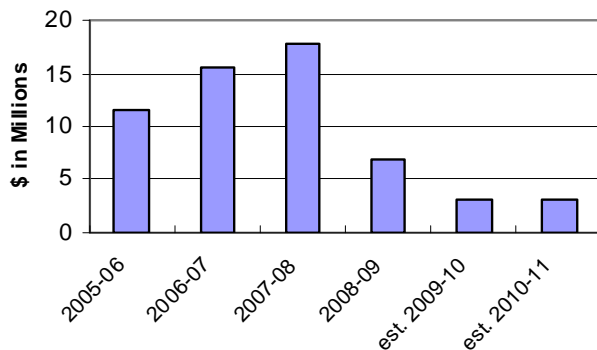
REVENUE FROM USE OF MONEY AND PROPERTY

2008-2009 Actual	\$6,888,314
2009-2010 Adopted	\$8,205,000
2010-2011 Forecast	\$2,908,315
2010-2011 Adopted	\$3,049,614
% of General Fund	0.3%
% Change from 2009-2010 Adopted	(62.8%)

Major Categories:

- General Fund Interest Earnings
- Rental of City-Owned Property
- Miscellaneous Collections

Collection Trend:



Revenue Estimates:

This category consists of interest income earned in the City's General Fund and revenue associated with the rental of City-owned property.

General Fund Interest Earnings

The 2010-2011 estimate for interest earnings in the General Fund assumes an average interest rate of 1.25%, applied to an average cash balance of approximately \$90 million for a total collection level of \$1.1 million. This estimate reflects a significant decline in both the average cash balance (down from \$180 million) and the average interest rate yield (down from 2.06%) assumed in the 2009-2010

Adopted Budget. The decline in the cash balance is the result of: (1) a change approved in 2008-2009 to prepay the City's contribution to its two retirement plans at the beginning of each fiscal year in an effort to maximize the earnings from these plans and reduce the City's contribution rates to the system; (2) expenditure or liquidation of earmarked reserves; and (3) reduced revenues. The lower interest yield projection, which was provided by the Finance Department, reflects the impact of the current economic conditions.

The reduction in Investment Program staff that are funded from interest earnings is expected to result in a net increase of \$81,000 to the interest earnings projection. With the change, interest earnings are expected to total \$1.2 million in 2010-2011.

Rental of City-Owned Property

In 2010-2011, it is anticipated that approximately \$1.2 million will be generated from the rental of City-owned property. This includes additional revenue of \$60,000 from leasing the City suite at HP Pavilion to Silicon Valley Sports and Entertainment for ten Sharks game dates.

Miscellaneous Collections

It is anticipated that approximately \$600,000 will be generated in 2010-2011 from Property Tax interest, Subrogation Recovery, and interest on various executive loans.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

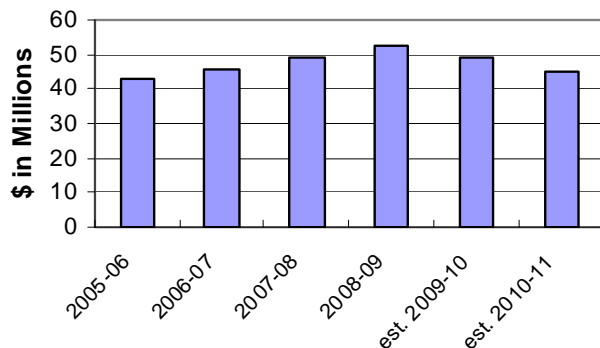
2008-2009 Actual	\$52,317,388
2009-2010 Adopted	\$50,722,734
2010-2011 Forecast*	\$48,135,499
2010-2011 Adopted	\$45,612,582
% of General Fund	4.9%
% Change from 2009-2010 Adopted	(10.1%)

* Revised upwards by \$290,221 from the February Forecast to reflect increased estimates for net reimbursements from the Redevelopment Agency (\$260,651) and the Childrens' Interview Center (\$41,164), partially offset by a decreased estimate for Cal-ID Program reimbursements (\$11,594).

Major Categories:

- Reimbursement from the San Jose Redevelopment Agency
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

Collection Trend:



Revenue Estimates:

San Jose Redevelopment Agency

The San Jose Redevelopment Agency (SJRA) reimbursements included in the February Forecast Budget totaled \$35.3 million. This figure included \$14.1 million to cover the estimated 2010-2011 costs for Agency staff and the current complement of City support

services provided to the Agency; \$15.0 million for the Convention Center Lease payment based on the debt payment schedule; and \$6.2 million for eligible City expenditures, which enables the City to fund the San José BEST Program and to cover the annualized cost for eight Police Officer positions. The base figure was increased by approximately \$261,000 to \$35.5 million to reflect an updated estimate for the base costs associated with the blight abatement services provided by the Transportation Department.

As part of the Adopted Budget, the revenue from the SJRA is expected to decrease by \$4.3 million to a total reimbursement level of \$31.2 million. Due to the financial difficulties of the San Jose Redevelopment Agency, these adjustments were brought forward as part of the budget balancing plan for the SJRA. The following adjustments are included in the Adopted Budget:

- Decrease of \$1.0 million to the reimbursement to the General Fund for eligible City costs. This will reduce the amount of funding that can be made available for the San José BEST Program by \$489,000 and for Police field patrol by \$522,000.

GENERAL FUND REVENUE ESTIMATES

Revenue From Local Agencies (Cont'd.)

- Decrease of \$873,000 in reimbursements for Code Enforcement services, including the elimination of 5.0 positions.
- Decrease of \$808,000 reflecting the elimination of funding for 6.25 positions in the Strong Neighborhoods Initiative Program.
- Decrease of \$478,000 to reflect the elimination of support for 3.0 positions in the City Attorney's Office.
- Decrease of \$314,000 for blight abatement efforts in the downtown area, including funding for 2.0 positions.
- Decrease of \$248,542 to eliminate support for chambers of commerce.
- Decrease of \$185,000 to reflect the elimination of support for 50% of 2.0 positions in the Office of Economic Development.
- Decrease of \$169,000 in support of San Jose Redevelopment Agency civil service staff reflecting 10% concessions for the Agency's Unit 99 staff.
- Decrease of \$147,270 to reflect lower reimbursements for the Mayor (\$27,098), the City Council (\$51,985), and Council general expenditures (\$68,187).
- Decrease of \$86,823 in reimbursements for contract compliance services, including funding for 0.5 positions.

Central Fire District and Paramedic Program Payments

Property taxes fund the Central Fire District, and those payments for the County areas covered by the San José Fire Department are passed on to the City. For 2010-2011, Central Fire District payments are expected to total \$5.6 million.

In 2010-2011, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed at \$1.8 million based on the agreement with the County.

Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and Senior Nutrition Programs. For 2010-2011, the base level of revenue was generally set at approximately the 2009-2010 estimated level. The 2010-2011 Adopted Budget includes the following adjustments:

- Increase of \$1.2 million to SB720 booking revenue to support staffing for the Police Central Identification Program.
- Increase of \$306,000 to reflect increased reimbursement from the County of Santa Clara for the Senior Nutrition Program.
- Increase of \$296,000 to reflect additional funding of \$273,000 and rebudgeted revenue of \$23,000 for the PG&E-Silicon Valley Energy Watch Program.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

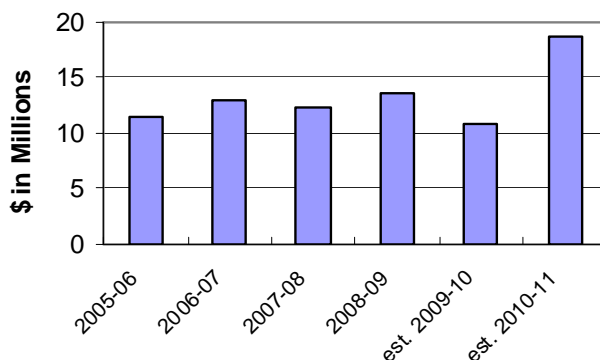
2008-2009 Actual	\$13,539,046
2009-2010 Adopted	\$9,236,133
2010-2011 Forecast*	\$8,677,974
2010-2011 Adopted	\$18,776,837
% of General Fund	2.0%
% Change from 2009-2010 Adopted	103.3%

* Decreased to reflect lower Waste Tire Enforcement revenue (\$177).

Major Categories:

- Tobacco Settlement Revenue
- Motor Vehicle In-Lieu and Airplane Taxes
- State Grants

Collection Trend:



Revenue Estimates:

Tobacco Settlement Revenue

In 2010-2011, the balance of the Healthy Neighborhoods Venture Fund was transferred to the General Fund and, on an ongoing basis, Tobacco Settlement Revenue from the State will be deposited in the General Fund. Based on the most recent information from the State, \$9.5 million of 2010-2011 Tobacco Settlement Revenue is included in the Adopted Budget.

Motor Vehicle In-Lieu and Airplane Taxes

Based on current collection trends, Motor Vehicle In-Lieu collections are expected to reach only \$2.8 million in 2009-2010, a significant drop from the \$4.0 million received in 2008-2009. In 2010-2011, collections are expected to remain at \$2.8 million.

The Aircraft In-Lieu payment is expected to reach \$4.1 million in 2009-2010, a decline of almost 16.3% from the 2008-2009 receipts of \$4.9 million. In 2010-2011, collections are expected to remain at the \$4.1 million level.

State Grants

The City receives a number of grants and reimbursements on an annual basis. For 2010-2011, the following revenue estimates are included from those sources: Abandoned Vehicle Fee revenue (\$600,000); Auto Theft Reimbursement (\$370,000); Public Library Fund (PLF) SB 358 grant funds (\$356,000); Highway Maintenance Charges (\$287,000); and Waste Tire Enforcement Reimbursement (\$159,000).

GENERAL FUND REVENUE ESTIMATES

Revenue From The State of California (Cont'd.)

As part of the 2010-2011 Adopted Budget, new grant funding is recognized for the following: First Five Program (\$250,000); South Bay Metro Task Force (\$79,000); 2008-2012 Avoid the 13 (\$46,000); and Rapid Enforcement Allied Computer Team Task Force (\$3,000).

In addition, the Adopted Budget incorporates the rebudget of grant funding for the following: Urban Forestry (\$105,000); 2009-2010 Sobriety Checkpoint Mini-Grant (\$56,000); 2008-2012 Avoid the 13 (\$18,000); Internet Crimes Against Children Task Force (\$6,000); and 2009-2010 Next Generation Click It or Ticket (\$5,000).

GENERAL FUND REVENUE ESTIMATES

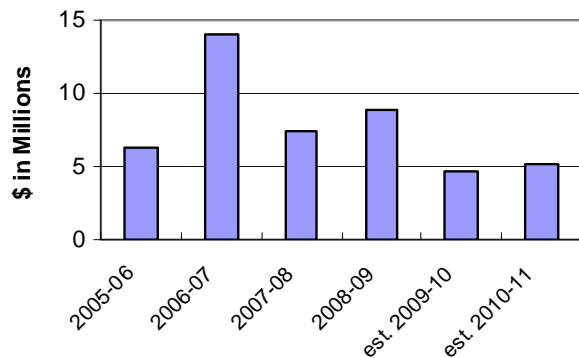
REVENUE FROM THE FEDERAL GOVERNMENT

2008-2009 Actual	\$8,801,169
2009-2010 Adopted	\$4,188,179
2010-2011 Forecast	\$346,920
2010-2011 Adopted	\$5,148,163
% of General Fund	0.6%
% Change from 2009-2010 Adopted	22.9%

Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

Collection Trend:



Revenue Estimates:

The revenue in this category is received from various grant programs. The 2010-2011 Adopted Budget only includes those grant proceeds known to be obligated for next year.

At this time, the following grants are anticipated for 2010-2011: Fire Department Self-Contained Breathing Apparatus Replacement (\$1.7 million); Northern California Regional Intelligence Center Super Urban Area Security Initiative (SUASI) - Police (\$221,000); 2009 Child Sexual Predator Program (\$182,000); Senior Companion Program (\$130,000); Stand - Striving Toward

Achievement (\$125,000); Organized Crime Drug Enforcement Task Force (\$30,000); 2009 COPS Technology Program (\$19,000); Computer Forensic Laboratory (\$4,000); San José Resident Office Task Force (\$4,000); 2008 Metropolitan Medical Response System - Fire (\$3,000); and 2009 Emergency Management and Performance (\$1,000).

In addition, the following grants were rebudgeted from 2009-2010 to 2010-2011: Summer Youth Nutrition Program (\$865,000); Internet Crimes Against Children Continuation (\$358,000); 2008 Metropolitan Medical Response System - Fire (\$319,000); 2008 SUASI - Fire (\$270,000); 2008 Juvenile Justice and Delinquency (\$208,000); Weed and Seed - East San José (\$131,000); 2008 Human Trafficking Prevention (\$97,000); Work-Wise, Improving Job Performance and Proficiency (\$76,000); Early Childhood Education Program (\$62,000); 2009 Child Sexual Predator Program (\$59,000); FBI Violent Gang Task Force (\$49,000); Bulletproof Vest Partnership (\$48,000); Solar America Cities Partnership (\$48,000); 2008 SUASI - Police (\$35,000); State Homeland Security Program (\$35,000); Federal DEA Organized Crime Drug Enforcement Task Force (\$20,000); IRS Suspicious Activities Report Review Team (\$15,000); 2009 COPS Technology Program (\$12,000); and 2006 Bureau of Justice (\$5,000).

GENERAL FUND REVENUE ESTIMATES

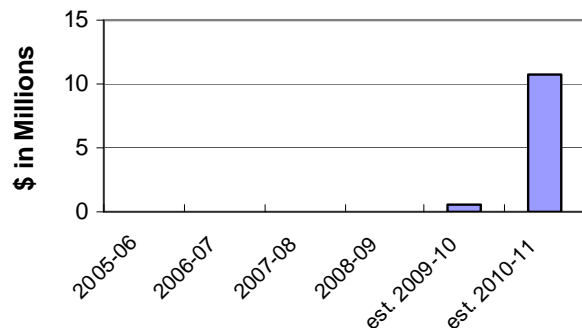
REVENUE FROM THE FEDERAL GOV'T - AMERICAN RECOVERY & REINVESTMENT ACT

2008-2009 Actual	\$0
2009-2010 Adopted	\$9,703,990
2010-2011 Forecast	\$0
2010-2011 Adopted	\$10,702,598
% of General Fund	1.2%
% Change from 2009-2010 Adopted	10.3%

Major Categories:

- American Recovery and Reinvestment Act of 2009

Collection Trend:



Revenue Estimates:

This category accounts for the revenue associated with the American Recovery and Reinvestment Act of 2009 that is recorded in the General Fund. Associated expenditure appropriations are also included in the 2010-2011 budget in the Capital and City-Wide Expenses categories.

As part of the 2010-2011 Adopted Budget, new grant funding is recognized for the following: Recovery Act - Anti-Human Trafficking Task Force (\$325,000); and

Recovery Act - Anti-Drug Abuse Enforcement Team (\$60,000).

In addition, the following grants were rebudgeted from 2009-2010 to 2010-2011: Recovery Act - Energy Efficiency and Conservation Block Grant (\$8.5 million); Recovery Act - Solar Market Transformation (\$1.1 million); Recovery Act - 2009 Internet Crimes Against Children Task Force (\$727,000); and Recovery Act - 2009 Anti-Human Trafficking Task Force (\$28,000).

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

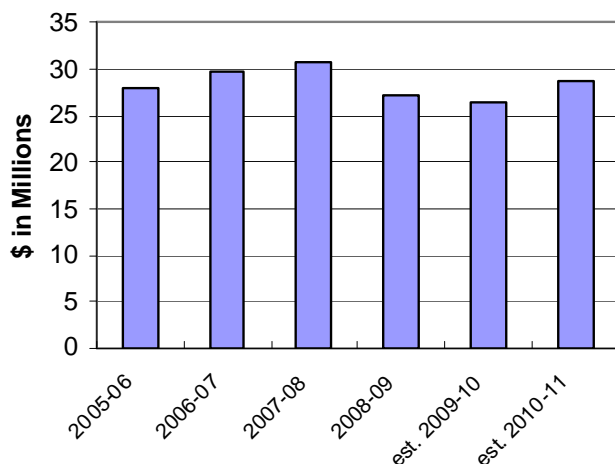
2008-2009 Actual	\$27,275,653
2009-2010 Adopted	\$30,438,723
2010-2011 Forecast*	\$29,363,381
2010-2011 Adopted	\$29,581,573
% of General Fund	3.2%
% Change from 2008-2009 Adopted	(2.8%)

* Increased by \$29,967 from the February Forecast: Transportation (up \$34,747), Public Works (down \$4,780).

Major Categories:

- Library Fees
- Parks, Recreation and Neighborhood Services Fees
- Planning Fees
- Police Fees
- Public Works Fees
- Transportation Fees
- Miscellaneous Departmental Fees

Collection Trend:



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2010-2011 Adopted

Budget, estimated Departmental Charges of \$29.6 million are down 2.8% from the 2009-2010 Adopted Budget level, and slightly higher than the Revised Forecast level. From the completion of the 2009-2010 Adopted Budget to the development of the 2010-2011 Forecast, the revenue projections for this category were lowered due primarily to the drop in development-related activity.

The Adopted Budget increase from the Revised Forecast in this category is mainly the result of adjustments approved to various fee programs, including fee increases to recover the projected costs and to address service level demands in 2010-2011.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs will be provided in the 2010-2011 Fees and Charges document to be released under separate cover.

Library Fees

Library Department fees and fines for 2010-2011 are estimated at \$1.9 million, which is also the 2009-2010 year-end estimate. A new fine for failure to pick-up materials placed on hold is anticipated to generate an additional \$30,000 in 2010-2011.

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$12.7 million in 2010-2011 based on current activity projections, revenue changes associated with PRNS departmental operations, and approved fee adjustments in conformance with City program costs in order to maintain cost recovery.

The 2010-2011 Adopted Budget estimate is significantly above the 2009-2010 year-end estimate of \$10.1 million due in large part to a \$2.7 million increase to the revenue estimate related to the newly-renovated Happy Hollow Park and Zoo and associated Parking revenue.

The increase in Happy Hollow revenue, however, is partially offset by reduction or elimination of fee-generating programs such as aquatics (\$342,000), citywide sports (\$104,000), and Family Camp (\$610,000). Additional detail on these budget actions is provided in the Parks, Recreation, and Neighborhood Services Department under the City Departments section of this document.

Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications.

In 2010-2011, Planning Fees are anticipated to generate approximately \$2.5 million of revenue, which is consistent with the 2009-2010 revenue estimate. No fee adjustments were brought forward in this program. To maintain cost recovery, expenditure actions were approved, including the elimination of 0.50 Planner position and the reassignment of 0.50 Senior Planner from the General Fund

and 0.21 Planner position to the Building Fee Program.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement Department under the City Departments section of this document.

Police Fees

The 2010-2011 Adopted Budget revenue estimate of \$1.9 million for the Police Department is 4.3% above the 2009-2010 year-end estimate of \$1.8 million. This increase results from approved adjustments to a number of the Police fees to maintain or improve cost-recovery levels.

Public Works Fees

In 2010-2011, Public Works fees are expected to generate \$4.3 million, which is \$1.3 million below (23.2%) the 2009-2010 Adopted Budget level.

The Public Works Fee Program is structured to be 100% cost-recovery. With the steep economic downturn, development-related activity has fallen significantly, resulting in a gap of \$1.2 million between base costs and revenues projected for 2010-2011. To bring this program to cost recovery for 2010-2011, a number of budget actions were approved, including one fee increase for utility minor permits, which is expected to generate an additional \$170,000. In addition to this fee increase, expenditure reductions were approved to bring the program back into alignment, including the elimination of 7.74 positions. There are no remaining reserves in this program.

Additional detail on these budget actions is provided in the Public Works Department under the City Departments section of this document.

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Transportation Fees

Transportation Departmental Charges are expected to generate \$759,000 in 2010-2011, which is 14.0% below the 2009-2010 year-end estimate of \$882,000. This drop reflects the continued decline in the development-related signal design and inspection categories as well as the Geometric Design Fee. Minor fee increases approved for this program are expected to generate an additional \$5,000 in 2010-2011.

Miscellaneous Departmental Fees

Collections of \$5.5 million are anticipated in 2010-2011 from a variety of miscellaneous fees and charges. This figure reflects an increase of \$746,000 from the Forecast estimate based on approved fee changes.

More than half of the revenue in this category is generated from the Solid Waste Enforcement Fee (SWEF) Program. An approved adjustment to the SWEF is expected to generate an additional \$721,000 and bring expected revenues in line with anticipated costs of \$3.5 million.

This category also includes the Animal Control Services fees, which are projected to generate \$708,000 in 2010-2011. This figure includes additional revenue of \$25,000 that is expected to be generated from approved fee increases for spay/neuter services.

It should be noted that no revenue is assumed from the Business Tax Administration fee, which was budgeted at \$1.3 million in the 2009-2010 Adopted Budget but subsequently suspended.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

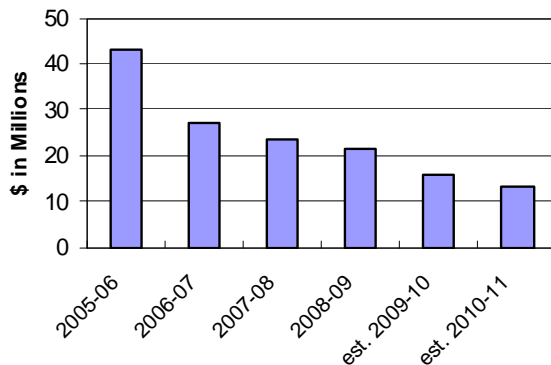
2008-2009 Actual	\$21,621,981
2009-2010 Adopted	\$15,462,438
2010-2011 Forecast*	\$13,574,040
2010-2011 Adopted	\$13,419,768
% of General Fund	1.4%
% Change from 2009-2010 Adopted	(13.2%)

* Decrease of \$2,998 in Investment Program Reimbursement from the February Forecast.

Major Categories:

- HP Pavilion at San José Revenues
- Investment Program Reimbursement
- Public, Educational, and Government (PEG) Access Facilities
- Sale of Property
- Sidewalk Repair and Tree Maintenance Activities
- Miscellaneous Other Revenue

Collection Trend:



Revenue Estimates:

HP Pavilion at San José Revenues

The City receives payments from Arena Management associated with the use of HP Pavilion at San José. In 2010-2011, it is estimated that \$4.6 million will be received for

parking, arena and suite rentals, and naming rights.

Investment Program Reimbursement

The 2010-2011 revenue estimate for this category is \$2.1 million based on the estimated costs of this program that will be reimbursed from investment earnings. This reflects a decrease of \$581,000 from the Forecast based on approved reductions in the Investment Program that are possible due to operational efficiencies in this program.

Since Investment Program costs are funded from interest earnings, the decrease in these costs results in additional interest earnings accruing in the various funds. An associated increase to the General Fund interest earnings estimate shown in the Use of Money and Property category is included to reflect this transaction.

PEG Access Facilities

The 2010-2011 Adopted Budget includes \$1.25 million to reflect the payments from Comcast and AT&T required under the Franchise Agreement. As defined in the Franchise Agreement, these funds will be used for capital expenditures in support of the Public, Educational, and Government (PEG) Access facilities. There is an associated City-Wide Expenses allocation for this purpose.

GENERAL FUND REVENUE ESTIMATES

Other Revenue (Cont'd.)

Sale of Property

The Adopted Budget includes revenue in the amount of \$1.8 million from the sale of General Fund surplus property.

Sidewalk Repair and Tree Maintenance Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2010-2011 revenue estimate for this category is \$400,000.

Property owners are also assessed for the costs of tree services provided by the City. If the City performs emergency tree services, such as removing a tree that has fallen in the street during a storm, the property owner is assessed a fee to cover the cost of this service. This fee is expected to generate \$400,000 in 2010-2011.

Miscellaneous Other Revenue

The 2010-2011 Adopted Budget incorporates miscellaneous other revenues including Banking Services (\$1.0 million), vehicle auction sales (\$232,000), vendor audits

(\$200,000), parades and celebrations cost reimbursement (\$200,000), City Hall parking revenue (\$100,000), Litigation Settlements (\$100,000) and several smaller revenue categories.

As part of the Adopted Budget, the following adjustments are included in the Other Revenue category:

- An increase of \$400,000 to reflect Wellness Program financial support from the City's employee healthcare providers.
- An increase of \$24,827 to reflect an Enhance Fitness Grant from the Health Trust of Silicon Valley.
- Increases for New Subdivision – Pavement Markings (\$1,000), New Subdivision – Traffic Control Signs (\$450), and Sale of Street Name Signs (\$160) to reflect fee adjustments to reach cost recovery.
- A decrease of \$581,000 in investment program reimbursements due to the implementation of process efficiencies in the investment, payment processing, and cashiering payment acceptance activities.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

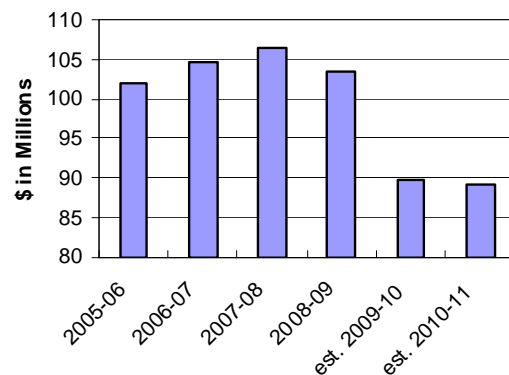
2008-2009 Actual	\$103,452,597
2009-2010 Adopted	\$83,492,331
2010-2011 Forecast*	\$75,462,774
2010-2011 Adopted	\$88,769,779
% of General Fund	9.6%
% Change from 2009-2010 Adopted	6.3%

* Decreased by \$1.3 million from the February Forecast: reduced interest earnings transfers from special funds (\$994,000); a net decrease for overhead adjustments (\$387,685); a reduced transfer from the Convention and Cultural Affairs Fund for staff support (\$28,551); a decrease to the Airport Reimbursement for Police and Fire Services (\$20,535); a reduced reimbursement for deferred compensation costs (\$656), an increase to the transfer from the Integrated Waste Management Fund for creek encampment clean-up (\$135,781); an increase to the transfer from the Community Facilities Revenue Fund for insurance and staff costs (\$7,488); and an increase to the transfer from the Ice Centre Revenue Fund for insurance costs (\$2,285).

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

Collection Trend:



Revenue Estimates:

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or as simple transfers. In total, Transfers and Reimbursements are anticipated to generate approximately \$88.8

million in 2010-2011. This amount is slightly below the 2009-2010 estimated level of \$89.7 million.

The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2010-2011.

Overhead Reimbursements

The 2010-2011 Adopted Budget includes \$33.9 million in overhead reimbursements from various special and capital funds. This amount reflects a decrease of \$974,000 from the revised Forecast estimate, which had also incorporated a downward adjustment of \$388,000 to reflect lower anticipated capital-related overhead.

It should be noted that the reduction of \$974,000 incorporated into the Adopted Budget is in addition to the decline of \$1.2 million included in the February Forecast estimate to account for the potential loss of overhead associated with positions that were likely to be eliminated in the 2010-2011 Budget, including positions assigned to the Airport and the Convention Center.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Adjustments to overhead reimbursements are generated from various budget actions that change the staffing levels funded by special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the City Departments section of this document.

Following is a summary of the overhead reimbursement changes by fund from the Forecast to the Adopted Budget. These adjustments reflect a net reduction of \$2.2 million, of which \$553,000 was the result of employee concessions that reduced the associated overhead reimbursements. However, funding of \$1.2 million that had been set aside in the February Forecast was available to address the drop in overhead reimbursement and served to offset the majority of this reduction.

- American Recovery and Reinvestment Act: Decrease of \$11,000.
- Airport Maintenance and Operations Fund: Decrease of \$853,000.
- Benefit Fund: Decrease of \$21,000.
- Convention and Cultural Affairs Fund: Decrease of \$411,000.
- Community Development Block Grant (CDBG) Fund: Decrease of \$137,000.
- Customer Facilities and Transportation Fee Fund: Decrease of \$133.
- Dental Insurance Fund: Decrease of \$2,000.
- General Purpose Parking Fund: Decrease of \$60,000.
- Home Investment Partnership Program Fund: Decrease \$261.
- Integrated Waste Management (IWM) Fund: Decrease of \$87,000.
- Life Insurance Fund: Decrease of \$314.

- Low and Moderate Income Housing Fund: Decrease of \$128,000.
- Maintenance Assessment Districts: Decrease of \$12,000.
- Multi-Source Housing Fund: Decrease of \$260.
- Public Works Program Support Fund: Decrease of \$145,000.
- San José/Santa Clara Treatment Plant Operating Fund: Decrease of \$84,000.
- Sewer Service and Use Charge Fund: Decrease of \$144,000.
- Stores Fund: Increase of \$32,000.
- Storm Sewer Operating Fund: Decrease of \$79,000.
- Unemployment Insurance Fund: Decrease of \$2,000.
- Vehicle Operations Fund: Decrease of \$78,000.
- Water Utility Fund: Decrease of \$40,000.
- Workforce Investment Act Fund: Increase of \$89,000.

Transfers

In the 2010-2011 Adopted Budget, the revenue estimate from Transfers totals \$37.6 million. The largest transfers in this category are from the following funds: the Airport Maintenance and Operation Fund for Police and Fire services (\$13.7 million); the Healthy Neighborhoods Venture Fund (\$6.9 million); the Construction Excise Tax Fund (\$5.7 million); the Parks City-Wide Construction and Conveyance Tax Fund (\$3.4 million), and the Integrated Waste Management Fund (\$2.6 million).

The Adopted Budget incorporates the following changes from the Revised Forecast totaling \$14.3 million:

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

- A transfer of the entire \$6.5 million fund balance from the Healthy Neighborhoods Venture Fund (HNVF) to implement the consolidation of the HNVF into the General Fund.
- An increase of \$2.4 million to the transfer from the Integrated Waste Management Fund reflecting unclaimed Construction and Demolition Diversion Deposits (CDDD). On an ongoing basis, \$250,000 is expected to be generated annually from this source.
- An increase of \$1.7 million to the transfer from the Construction Excise Tax Fund to reimburse General Fund costs of pavement resurfacing and sealing.
- A transfer from the Parks City-Wide Construction and Conveyance (C&C) Tax Fund of \$1.4 million to reimburse the General Fund for funds fronted for the Edenvale Community Center project that were to be repaid from revenues generated from an agreement with Calpine that are reflected in this C&C Fund.
- A transfer of \$876,000 of unclaimed deposits from the Depositor's Fund.
- An increase of \$500,000 to the transfer from the Lake Cunningham Fund to reimburse the General Fund for a portion of the 2010-2011 costs of Lake Cunningham Park maintenance, including the operation of the Lake Cunningham Marina.
- An increase of \$485,000 to the transfer from the Services for Redevelopment Capital Projects Fund to reflect the transfer of prior year interest earnings in that fund.
- A \$330,000 transfer of interest earnings from the General Purpose Parking Fund. On an ongoing basis, this transfer is expected to total \$365,000.

- A \$187,000 transfer from the Low and Moderate Income Housing Fund to support Finance Department activities related to administering the loans from City funds to the San Jose Redevelopment Agency to support payments to the State Supplemental Educational Revenue Augmentation Fund (SERAF). This cost for Finance Department oversight will be incorporated into the amount due from the SJRA.
- An increase of \$40,000 to the transfer from the Convention and Cultural Affairs to reflect full reimbursement for General Fund costs.
- A decrease of \$205,000 to the transfer from the Airport Maintenance and Operation Fund for Police services reflecting elimination of the Police Airport Canine Unit.

Reimbursement for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2010-2011, the revenue estimate for this category is \$17.3 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2010-2011, collections from this source are projected at \$16.6 million, which is 2% above the 2009-2010 year-end estimate of \$16.3 million.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$125,000 and \$597,000, respectively.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Unexpended/Rebudgeted Earmarked Reserves	\$44,255,643
Expenditure Rebudgets	31,256,256
Unexpended Contingency Reserve	29,309,000
Excess Revenue/Expenditure Savings	14,336,030
Ending Fund Balance	12,300,000
Liquidation of Prior Year Encumbrances	3,350,000
Fund Balance Subtotal:	\$134,806,929
Reserve for Encumbrances	25,823,874
Fund Balance Total:	\$160,630,803
% of General Fund*	14.5%

* Excluding the Reserve for Encumbrances.

Estimates for both the unrestricted and restricted (reserve for encumbrances) portions of the 2009-2010 Ending Fund Balance/2010-2011 Beginning Fund Balance, totaling \$160.6 million, are included as part of the 2010-2011 Adopted Operating Budget. The estimate for the encumbrance reserve is set at the 2008-2009 actual level (\$25,823,874). The Adopted Budget includes a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted fund balance has been set at \$134.8 million, representing a \$92.6 million increase from the 2011-2015 Forecast level of \$42.2 million. When the Forecast was developed, the fund balance projection included \$12.8 million from a combination of excess revenue, expenditure savings, and the liquidation of prior-year carryover encumbrances; an unexpended Contingency Reserve estimate of \$29.3 million; and the use of Earmarked Reserves (\$60,000).

The \$92.6 million increase from the Forecast reflects the following items: the rebudget and use of Unexpended Earmarked Reserves (\$44.2 million); an increase in the expected expenditure savings (\$4.5 million);

expenditure rebudgets (\$31.2 million); establishment of an ending fund balance from litigation settlement revenue and additional Sales Tax revenue received at the end of the fiscal year (\$12.3 million); and an increase to the liquidation of prior-year carryover encumbrances (\$350,000).

Following is a discussion of the fund balance components:

- The rebudget or use of unexpended Earmarked Reserves (\$44.2 million) was approved. Earmarked Reserves totaling \$32.0 million were rebudgeted to 2010-2011. In addition, the following unexpended Earmarked Reserves (\$12.2 million) were approved for use in 2010-2011: the Retiree Healthcare Liability Reserve (\$4.8 million); a portion of the \$2.8 million Future Capital Projects (FF&E) Reserve (\$2.4 million); a portion of the \$3.3 million Neighborhood Investment Fund Reserve (\$1.4 million); a portion of the \$2.2 million Fire Development Fee Reserve (\$924,000); a portion of the \$969,000 Enhanced Parks Maintenance Reserve (\$800,000), a portion of the \$1.8 million Pension Pre-Payment Reserve (\$800,000); the Airport

GENERAL FUND REVENUE ESTIMATES

Beginning Fund Balance (Cont'd.)

West Proceeds Reserve (\$703,000); the Tenth - Senter Maintenance Project Reserve (\$215,000); the Environmental Mitigation (Special Planning Efforts) Reserve (\$79,000); and the North First - East Tasman Maintenance Project Reserve (\$73,000).

- Expenditure rebudgets totaled \$31.2 million, the majority of which represent City-Wide and Capital projects that were not completed in 2009-2010.
- A total of \$14.3 million is expected from excess revenue and expenditure savings generated in 2009-2010. From the Forecast estimate of \$9.8 million, the estimate was increased by \$1.3 million to reflect expenditure savings in the Mayor's Office, Council General, and Council District Office accounts, and an additional \$3.2 million based on expected savings from specific allocations.

These specific allocations that were expected to generate savings in 2009-2010 for use in 2010-2011 included: Streetlight electricity credit from PG&E (\$1,000,000); the Tamien Specific Plan Area Park allocation (\$622,000); the Police Department Hire Ahead allocation (\$500,000); the Fire Self-Contained Breathing Apparatus City-Wide allocation (\$440,000); the False Claims Act City-Wide allocation (\$219,000); the Energy Efficiency Program City-Wide allocation (\$119,000); the Office of Emergency Services Emergency Response and Preparedness City-Wide allocation (\$119,000); the Employee Wellness Program City-Wide allocation (\$110,000); and the Parks Maintenance Enhancement Strategy City-Wide allocation (\$110,000).

- A \$12.3 million estimate for Ending Fund Balance was established to reflect litigation settlement revenue of \$10.0

million that had been anticipated to be received in 2010-2011 during the development of the budget and \$2.3 million of additional Sales Tax revenue received in June 2010. The litigation settlement amount includes a settlement payment of \$6.0 million from Pacific Gas and Electric Company resulting from litigation related to payment of electric and gas Franchise Fees and a settlement payment of \$4.0 million resulting from litigation related to the City's Kirby Canyon Landfill.

- The estimate for the Liquidation of Prior Year Encumbrances was increased by \$350,000 to reflect the anticipated liquidation of encumbrances in 2009-2010 for the City Attorney's Office.